SASKATCHEWAN FOREST PRODUCTS CORPORATION 1989 ANNUAL REPORT

90-04698/

45th ANNUAL REPORT

SASKATCHEWAN FOREST PRODUCTS CORPORATION

YEAR ENDED OCTOBER 31, 1989

Letter of Transmittal

Regina, Saskatchewan
January 19, 1990

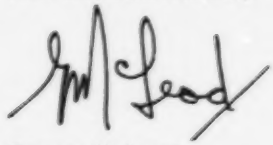
To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the annual report of the Saskatchewan Forest Products Corportation for the year ended October 31, 1989 including the financial statements therefore, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporations Act, 1978.

I have the honour to be, Madam,

Your obedient servant,



George McLeod
Minister Responsible for the
Saskatchewan Forest Products
Corporation

Board of Directors

Honourable George McLeod, Chairman of the Board

Mr. Armand Quessy, Debden

Mr. Alfred Sauder, Carrot River

Mr. Arnold Foss, Pierceland

Mr. Y. Don Elliott, Christopher Lake

Secretary to the Board

Mr. Robert B. Emigh, Saskatoon

Corporation Officers and Management

Mr. Dale Vizina	General Manager
Mr. Fred Hachey	Controller
Mr. Dale Vizina	Woodlands Manager
Mr. Henry A. Peters	Marketing Manager

Division Management

Mr. Roland St. Louis	Manager, Carrot River Sawmill
Mr. Lenard Pelletier	Manager, Hudson Bay Plywood Plant

Report of the General Manager

Markets for forestry products in 1989 showed little improvement over 1988. Higher sales prices were experienced for plywood, but lumber prices were down 11%.

Lumber sales volumes were back to a normal yearly average with both the sawmill and planer operating at capacity.

Plywood sales volumes as well as selling prices were up from 1988 levels. An increase in the number of housing starts and a reduction of plywood entering Canada from the U.S.A. helped to boost demand for Canadian manufactured plywood.

Prince Albert Wood Preserving Plant was closed in the fall of 1988 and the assets were sold during the summer and fall of 1989.

Capital expenditures essential to maintain plant efficiency were carried out at Carrot River and Hudson Bay mills.

Head office was moved from Prince Albert to Hudson Bay, in March 1989.

Financial

The corporation recorded a profit of $1.4 million on consolidated sales of $25.4 million. Increased revenues from both plywood and lumber, together with lower production and interest costs accounted for the improved financial results when compared to 1988.

Capital expenditures for the year were $2.6 million. There were no loans outstanding at year end. Interest expense for the year was $407 thousand compared to $1.7 million in 1988.

Outlook

The 1990 outlook for the United States show positive signs; being spurred on by lower interest rates and an anticipated pickup in economic growth. Forecasts for U.S. housing starts are between 1.42 and 1.48 million units.

Most analysts are not expecting to see significant fluctuations in the prices of softwood lumber for the year. Although variations in the Canadian dollar could change the situation.

Report on Operations

Woodlands

Logging operations were very successful and planned primarily in Spruce Bud Worm infested stands of White Spruce north and east of Carrot River. This helps ensure a continual eradication of the infested areas, leaving green standing timber for future years.

The Corporation policy to outright purchase Spruce sawlogs and peeler bolt material from private land owners and small operators was continued with a high degree of success.

Reforestation during 1989 was limited to the planting of 662,000 White Spruce seedlings and the completion of a productive forest land depletion classification survey, in co-operation with Forestry Canada.

Saskatchewan Forest Products Corporation's woodland safety program continued to be very successful, with lost time accidents very minimal resulting from a safer work environment.

Hudson Bay Plywood Plant

The mill operated as forecasted with production showing increases in all departments over 1988 production. Total plywood production was at a record high of 82,991 M 3/8.

Major improvements were carried out to upgrade the Greenend to allow for greater utilization of roundwood by producing a smaller size core.

The mill employed an average of 175 hourly and 14 salaried employees. Total payroll for 1989 was $6.5 million.

Carrot River Sawmill

Sawmill operations were back to normal after being shutdown for a period in 1988 to reconstruct the planer destroyed by fire. The mill operated 36 more shifts than budgeted, which increased lumber production to 25.5 million FBM compared to a budget of 23.1 million FBM.

The mill employed an average of 64 employees and had a total annual payroll of $2.3 million.

Personnel

The total number of employees on the payroll at year-end was 263.

Accident prevention continues to be a high priority area as efforts are made to reduce lost time and workmen's compensation costs.

A labour agreement was signed with International Woodworkers of America LOCAL 1-184 for a period of one year from April 1, 1989 to March 31, 1990.

Dale Vizina
General Manager
Saskatchewan Forest Products Corporation

AUDITORS' REPORT

December 7, 1989

AUDITORS' REPORT

To the Members of the Legislative
Assembly of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Forest Products Corporation as at October 31, 1989 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at October 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the disclosure of discontinued operations and extraordinary items, as explained in Note 2, on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note Reference	October 31 1989	1988
		(In Thousands)	
ASSETS			
Current assets:			
Cash on deposit		$ 3,514	$ 667
Accounts receivable		3,621	4,037
Prepaid expenses		133	109
Inventories		4,671	6,131
		11,939	10,944
Property, plant and equipment	4	10,691	10,234
		$22,630	$21,178
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 2,142	$ 2,457
Short-term loans	5	-	16,570
Long-term notes	6	-	3,128
		2,142	22,155
Province of Saskatchewan's equity:			
Equity advances	6 & 7	40,200	20,112
Deficit		(19,712)	(21,089)
		20,488	(977)
		$22,630	$21,178

(See accompanying notes)

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

	Note Reference	Year ended October 31 1989	1988
		(In Thousands)	
Revenue:			
Sales of forest products		$ 25,424	$ 19,993
Expenses:			
Operating costs		21,396	17,668
Interest on short-term loans	5	306	1,336
Interest on long-term notes	6	101	350
Depreciation and amortization		791	703
Selling, general and administrative		841	633
		$ 23,435	$ 20,690
Earnings (loss) before discontinued operations and extraordinary item		1,989	(697)
Loss from discontinued operations	2 & 10	(612)	(674)
Extraordinary item	2	-	69
Net earnings (loss) for the year		1,377	(1,302)
Deficit, beginning of year		(21,089)	(19,787)
Deficit, end of year		$(19,712)	$(21,089)

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Note Reference	Year ended October 31 1989 (In Thousands)	1988
Cash provided by (used in) operating activities:			
Earnings (loss) before discontinued operations and extraordinary items		$1,989	$ (697)
Add charges to operations not requiring a current cash payment -			
Depreciation and amortization		791	703
Loss (gain) on sale of property, plant and equipment (before discontinued operations)		6	(47)
		2,786	(41)
Discontinued operations	2 & 10	482	(354)
Business interruption insurance proceeds	2	-	69
Net change in non-cash working capital balances related to operations		1,537	(525)
Cash provided by (used in) operating activities		4,805	(851)
Cash provided by (used in) investment activities:			
Proceeds from sale of property, plant and equipment (before discontinued operations)		12	71
Additions to property, plant and equipment	4	(2,360)	(1,406)
Cash used in investment activities		(2,348)	(1,335)
Cash provided by (used in) financing activities:			
Issuance of long-term notes	6	1,500	-
Increase in short-term loans		-	2,471
Reduction of long-term notes	6	(4,628)	(1,284)
Reduction of short-term loans	5 & 6	(16,570)	-
Equity advance from Crown Investments Corporation of Saskatchewan	6 & 7	20,088	-
Cash provided by financing activities		390	1,187
Net increase (decrease) in cash during the year		2,847	(999)
Cash on deposit, beginning of year		667	1,666
Cash on deposit, end of year		$3,514	$667

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1989

1. Summary of accounting policies:
This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation principles -
These consolidated financial statements include the accounts of the corporation's wholly-owned subsidiary, Northern Forest Operations Ltd.

Inventories -
Inventories of logs and mill supplies are valued at the lower of cost and replacement cost. Inventories of lumber, plywood and treated products are valued at the lower of average cost and net realizable value. Average cost includes appropriate production overheads.

Property, plant and equipment -
Property, plant and equipment are stated at cost and are depreciated over their estimated useful lives primarily on the diminishing-balance basis at the following rates:

Buildings	5 - 10%
Machinery and equipment	6.7 - 10%
Vehicles	15%
Site improvements	4%
Office equipment	10%
Roads	10%

2. Change in accounting policy:

During the year, the corporation adopted retroactively the new recommendations issued by the Canadian Institute of Chartered Accountants on the disclosure of discontinued operations and extraordinary items. Accordingly, separate disclosure has been made for the operating results of discontinued operations and the net gain or loss from the disposal of discontinued operations for the years ended October 31, 1989 and October 31, 1988 (see Note 10). As a result, there was no impact on net earnings (loss) during the above years. The extraordinary item in 1988 relates to business interruption insurance proceeds of $69,000.

3. Status of Saskatchewan Forest Products Corporation:

The corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act. These financial statements will be consolidated in the accounts of the Crown Investments Corporation of Saskatchewan.

4. Property, plant and equipment:

	October 31 1989	1988
	(In Thousands)	
Machinery and equipment	$11,091	$10,533
Building and site improvements	3,493	4,281
Land	827	770
Roads and spur tracks	344	392
	15,755	15,976
Less: Accumulated depreciation	5,064	5,742
	$10,691	$10,234

5. Short-term loans:

The short-term loans due to Crown Investments Corporation of Saskatchewan, as at October 31, 1988 were repaid during the year (see Note 6).

On April 7, 1989, Crown Investments Corporation of Saskatchewan provided a short-term loan of $1,565,000 to the corporation which was repaid prior to October 31, 1989 with funds from operations.

6. Long-term notes:

On December 16, 1988, Crown Investments Corporation of Saskatchewan provided an equity advance to the corporation of $20,088,000. Proceeds from this equity advance were used by the company to repay all outstanding long-term notes and short-term loans plus related accrued interest.

On April 7, 1989, Crown Investments Corporation of Saskatchewan provided a long-term promissory note of $1,500,000 to the corporation which was repaid prior to October 31, 1989 with funds from operations.

7. The Province of Saskatchewan's equity:

The Province of Saskatchewan's equity in the corporation is made up of equity advances by the Crown Investments Corporation of Saskatchewan to the corporation since its inception, less amounts repaid or forgiven. These advances are repayable at the discretion of the Crown Investments Corporation of Saskatchewan and do not bear interest. An additional advance was provided during the year (see Note 6). The deficit represents accumulated earnings and losses of the corporation since the date of the reorganization on November 1, 1977.

8. Contingencies:

Contingent liability -
The corporation is investigating the clean-up of its two former treatment plant properties. The estimated costs to clean up one property have been provided for in the current year. With regards to the other property, it is not possible to determine what clean-up costs will be and accordingly, no further provision has been made in the consolidated financial statements. Such costs will be accounted for as a charge to operations of the applicable period.

There are other various lawsuits and claims that are pending by and against the corporation. It is the opinion of management that final determination of these claims will not materially effect the financial position or the results of operations of the corporation. Any settlements resulting from the resolution of these contingencies will be accounted for as charges to operations in the period in which settlement occurs.

Contingent gains-
Pursuant to the purchase agreement between the corporation's wholly-owned subsidiary, Northern Forest Operations Ltd. and the Province of Saskatchewan dated February 27, 1986, compensation may be sought from the Province for losses arising from certain operations subsequent to October 31, 1985.

No provision has been made in the financial statements for any additional compensation which may be recovered. Any subsequent settlement will be accounted for as a credit to operations in the period in which the settlement occurs.

9. Related party transactions:

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

10. Discontinued operations:

The corporation ceased production at the Prince Albert treatment plant in 1988. In 1989, prior to the sale of the treatment plant, the corporation incurred an operating loss from these discontinued operations of $190,000.

During September and October of 1989, the corporation sold virtually all of the property, plant and equipment of the treatment plant resulting in a loss of $565,000. Fixed assets with a net book value of $77,000 remain as at October 31, 1989.

The results of discontinued operations are summarized as follows:

	1989	1988
	(In Thousands)	
Operating loss from discontinued operations	$(190)	$(245)
Loss on sale of property, plant and equipment	(565)	(140)
Recovery of close-down costs	143	356
Other related costs	-	(645)
Loss from discontinued operations	(612)	(674)
Add items not requiring a current cash payment -		
Loss on sale of property, plant and equipment	565	140
Proceeds from sale of property, plant and equipment	529	180
Cash provided by (used in) discontinued operations	$482	$(354)

11. Comparative figures:

Certain 1988 figures have been reclassified for comparative purposes.